

House File 478 - Introduced

HOUSE FILE 478

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 3)

A BILL FOR

1 An Act relating to the individual income tax by creating an
2 alternative base income tax and an alternative cumulative
3 income surtax imposed at the election of the taxpayer and
4 including effective date and retroactive applicability
5 provisions.

6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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DIVISION I

ALTERNATIVE BASE INCOME TAX AND
ALTERNATIVE CUMULATIVE INCOME SURTAX

Section 1. NEW SECTION. 422.5A Tax imposed — alternative
base income tax.

1. For purposes of this section, "*base income*" means the
adjusted gross income before the net operating loss deduction
as properly computed for federal income tax purposes under the
Internal Revenue Code, with the following adjustments:

a. Subtract a standard deduction equal to six thousand two
hundred thirty-five dollars for a married person who files
separately or a single person or equal to twelve thousand four
hundred seventy dollars for a married couple who files a joint
return, a surviving spouse, or a head of household.

b. Subtract interest and dividends from federal securities.

2. Notwithstanding any other provision of law, a resident
or nonresident may, in lieu of the taxes imposed under section
422.5, elect to be subject to state income tax as imposed and
computed pursuant to subsection 3. Such election must be made
not later than the due date for filing the return for a taxable
year, including extensions thereof, and under rules to be
prescribed by the director.

3. A tax is imposed upon every resident and nonresident
of the state making the election under subsection 2 which tax
shall be levied, collected, and paid annually in an amount
equal to the base income of the resident or nonresident times
four and one-half percent.

4. Notwithstanding any other provision of law, a resident or
nonresident making the election under subsection 2 shall not
be allowed any nonrefundable or refundable credit otherwise
allowed under this division for the tax year for which the
election is made, except for the credits for withheld tax and
estimated tax paid under section 422.16.

5. A taxpayer making the election under subsection 2 shall
be subject to an alternative cumulative income surtax as

1 provided in section 298.14.

2 Sec. 2. Section 298.14, Code 2013, is amended to read as
3 follows:

4 **298.14 School district income surtaxes.**

5 1. a. For each fiscal year, the cumulative total of the
6 percents of surtax approved by the board of directors of a
7 school district and collected by the department of revenue
8 under sections 257.21, 257.29, and 298.2, and the enrichment
9 surtax under section 442.15, Code 1989, and an income surtax
10 collected by a political subdivision under chapter 422D, shall
11 not exceed twenty percent.

12 b. Notwithstanding paragraph "a", or any other provision
13 of law to the contrary, for a taxpayer who makes an election
14 under section 422.5A, subsection 2, and who is subject to an
15 income surtax as provided in section 257.21, 257.29, 298.2,
16 442.15, Code 1989, or chapter 422D, the appropriate governing
17 body shall impose, and the department of revenue shall collect,
18 an alternative cumulative income surtax from the taxpayer in an
19 amount equal to one hundred twenty-two percent of the amount
20 generated by each surtax imposed by the school district or
21 political subdivision for the tax year in which the election
22 is made.

23 2. A school district income surtax fund is created in the
24 office of treasurer of state. Income surtaxes collected by
25 the department of revenue under sections 257.21, 257.29, and
26 298.2 and section 442.15, Code 1989, shall be deposited in the
27 school district income surtax fund to the credit of each school
28 district. A separate accounting of each surtax, by school
29 district, shall be maintained.

30 3. The director of the department of administrative
31 services shall draw warrants in payment of the surtaxes
32 collected in each school district. Warrants shall be payable
33 in two installments to be paid on approximately the first day
34 of December and the first day of February following collection
35 of the taxes and shall be delivered to the respective school

1 districts.

2 DIVISION II

3 CONFORMING CHANGES

4 Sec. 3. Section 68A.102, subsection 21, Code 2013, is
5 amended to read as follows:

6 21. "*State income tax liability*" means either the state
7 individual income tax imposed under section 422.5, less the
8 amounts of nonrefundable credits allowed under chapter 422,
9 division II, or the alternative base income tax imposed under
10 section 422.5A if applicable.

11 Sec. 4. Section 257.21, unnumbered paragraph 2, Code 2013,
12 is amended to read as follows:

13 The instructional support income surtax shall be imposed on
14 the state individual income tax for the calendar year during
15 which the school's budget year begins, or for a taxpayer's
16 fiscal year ending during the second half of that calendar year
17 and after the date the board adopts a resolution to participate
18 in the program or the first half of the succeeding calendar
19 year, and shall be imposed on all individuals residing in the
20 school district on the last day of the applicable tax year. As
21 used in this section, "*state individual income tax*" means either
22 the taxes computed under section 422.5, less the amounts of
23 nonrefundable credits allowed under chapter 422, division II,
24 or the tax computed under section 422.5A if applicable.

25 Sec. 5. Section 422.16, subsection 8, Code 2013, is amended
26 to read as follows:

27 8. An employer or withholding agent shall be liable for
28 the payment of the tax required to be deducted and withheld
29 or the amount actually deducted, whichever is greater, under
30 subsections 1 and 12 of this section; and any amount deducted
31 and withheld as tax under subsections 1 and 12 of this section
32 during any calendar year upon the wages of any employee,
33 nonresident, or other person shall be allowed as a credit to
34 the employee, nonresident, or other person against the tax
35 imposed by section 422.5, or section 422.5A if applicable,

1 irrespective of whether or not such tax has been, or will
2 be, paid over by the employer or withholding agent to the
3 department as provided by this chapter.

4 Sec. 6. Section 422.21, subsection 1, Code 2013, is amended
5 to read as follows:

6 1. Returns shall be in the form the director prescribes,
7 and shall be filed with the department on or before the last
8 day of the fourth month after the expiration of the tax year.
9 However, cooperative associations as defined in section 6072(d)
10 of the Internal Revenue Code shall file their returns on or
11 before the fifteenth day of the ninth month following the
12 close of the taxable year and nonprofit corporations subject
13 to the unrelated business income tax imposed by section
14 422.33, subsection 1A, shall file their returns on or before
15 the fifteenth day of the fifth month following the close of
16 the taxable year. If, under the Internal Revenue Code, a
17 corporation is required to file a return covering a tax period
18 of less than twelve months, the state return shall be for the
19 same period and is due forty-five days after the due date of
20 the federal tax return, excluding any extension of time to
21 file. In case of sickness, absence, or other disability, or
22 if good cause exists, the director may allow further time for
23 filing returns. The director shall cause to be prepared blank
24 forms for the returns and shall cause them to be distributed
25 throughout the state and to be furnished upon application,
26 but failure to receive or secure the form does not relieve
27 the taxpayer from the obligation of making a return that is
28 required. The department may as far as consistent with the
29 Code draft income tax forms to conform to the income tax
30 forms of the internal revenue department of the United States
31 government. Each return by a taxpayer upon whom a tax is
32 imposed by section 422.5 or 422.5A shall show the county of the
33 residence of the taxpayer.

34 Sec. 7. Section 422D.2, Code 2013, is amended to read as
35 follows:

1 **422D.2 Local income surtax.**

2 A county may impose by ordinance a local income surtax as
 3 provided in section 422D.1 at the rate set by the board of
 4 supervisors, of up to one percent, on the state individual
 5 income tax of each individual residing in the county at the
 6 end of the individual's applicable tax year. However, the
 7 cumulative total of the percents of income surtax imposed on
 8 any taxpayer in the county shall not exceed twenty percent,
 9 except as provided in section 298.14. The reason for imposing
 10 the surtax and the amount needed shall be set out in the
 11 ordinance. The surtax rate shall be set to raise only the
 12 amount needed. For purposes of this section, "*state individual*
 13 *income tax*" means either the tax computed under section 422.5,
 14 less the amounts of nonrefundable credits allowed under chapter
 15 422, division II, or the tax computed under section 422.5A if
 16 applicable.

17 DIVISION III

18 IMPLEMENTATION

19 Sec. 8. EFFECTIVE UPON ENACTMENT. This Act, being deemed of
 20 immediate importance, takes effect upon enactment.

21 Sec. 9. RETROACTIVE APPLICABILITY. This Act applies
 22 retroactively to January 1, 2013, for tax years beginning on
 23 or after that date.

24 EXPLANATION

25 This bill relates to the individual income tax by creating
 26 an alternative base income tax imposed at the election of the
 27 taxpayer.

28 Division I relates to the computation and imposition of an
 29 alternative base income tax.

30 In lieu of the regular personal net income tax computed and
 31 imposed under Code section 422.5, a resident or nonresident
 32 individual may elect to be subject to an alternative base
 33 income tax as provided in the division. An election must be
 34 made not later than the due date for filing the return for
 35 a taxable year, including extensions, and under rules to be

1 prescribed by the director.

2 The state income tax of a taxpayer making an election shall
3 be an amount of tax equal to the taxpayer's base income times
4 4.5 percent. "Base income" is defined as the taxpayer's
5 adjusted gross income before the net operating loss deduction
6 as properly computed for federal income tax purposes, less
7 a standard deduction of \$6,235 for a married person who
8 files separately or a single person or \$12,470 for a married
9 couple filing a joint return, a surviving spouse, or a head
10 of household and less interest and dividends from federal
11 securities. A taxpayer shall not be allowed any nonrefundable
12 or refundable tax credit for the tax year for which the
13 election is made, except the credits for withheld tax and
14 estimated tax paid under Code section 422.16.

15 If a taxpayer making an election is also subject to a local
16 income surtax, that taxpayer is subject to a local income
17 surtax rate that is 22 percent higher than the rate otherwise
18 imposed by the school district or political subdivision.

19 Division II relates to miscellaneous conforming changes.

20 The division makes conforming changes to the definitions of
21 "state income tax liability" for purposes of the Iowa election
22 campaign fund income tax checkoff in Code chapter 68A, and
23 "state individual income tax" for purposes of the emergency
24 medical services income surtax in Code chapter 422D, the
25 instructional support income surtax in Code section 257.21,
26 and, by reference, the educational improvement income surtax
27 in Code section 257.29 and the physical plant and equipment
28 income surtax in Code section 298.2, to include income tax
29 computed and imposed under the alternative system in new Code
30 section 422.5A. The division also amends Code sections 422.16
31 and 422.21 to include references to new Code section 422.5A
32 in provisions of those Code sections that reference the tax
33 imposed under Code section 422.5.

34 Division III relates to implementation of the bill.

35 The division provides that the bill takes effect upon

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1 enactment and applies retroactively to January 1, 2013, for tax
2 years beginning on or after that date.